

LONG TERM ORIENTED BUYER SUPPLIER RELATIONSHIP- A STUDY OF SELECT TEXTILE UNITS IN LUDHIANA

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Abstract

The changes in structural and marketing trends have led the organizations to work for the profitability of supply chain. Without the help of suppliers this objective cannot be achieved. For this collaboration a long term orientation need to be determined which is possible by undergoing a relationship between the buyer and the supplier. The long term orientation is an important antecedent of which strengthens the relationship between the buyer and the supplier. In this paper an attempt has been made to identify the elements of this important antecedent and prioritizing them along with the reasons provided by the buyer to maintain the relationship with the supplier for long term.

KEYWORDS: *Supply Chain, Supplier, Relationship, Long term orientation.*

Introduction

No organization can work in a close system, at the same time no organization can be considered as an independent unit as it is dependent on other units like suppliers and customers to sustain. In the present scenario, it is not the competition among the organizations but the competition among the supply chains. The supply side of the organizations has gained importance in the last two decades when a shift has been seen from purchasing to supply management.

Managing the supply chain is a central and important area for academic research due to its impact on firms competing in today's global economy and supply chain management has become a significant strategic tool for firms striving to improve quality, customer service and competitive success (Su et al. 2009). Although ideally supply chain management emphasizes total integration of all the business entities within the supply chain, a practical approach is to

consider only the strategic suppliers and customers because most supply chains are too complex to achieve full integration of all the supply chain members (Tan 2002).

The basic characteristics of a **network** organization is a confederation – a loose and flexible coalition guided from a hub where the key functions include development and management of the alliances themselves, coordination of financial resources and technology, definition and management of core competencies and strategies, development of relationships with customers and management of information resources that bind the network. (Webster, 1992)

The structure of any organization can be viewed as the patterns of relationship among people. In the same way the patterns of relationship among the organizations engaged in creating product/services can be represented in the supply chain structure. Many inter-organizational networks have turned into ‘netchains’, that is, layers of horizontally linked suppliers which are also associated with buyers through vertical collaborative ties (Lazzarini et. al., 2007). A Supply network is reflective of key real world dimensions which disclose the links between various partners of supply chain.

To enhance the value in competitive environment, the integration with customers and suppliers has become necessary. Even while preparing the balanced scorecard of the organization, Suppliers perspective is taken. In this perspective the inbound logistics cost as a percentage of sales, average payment period to the creditors, and the suppliers’ performance in terms of reduction in variance in time and quality are the most important KPIs (key performance indicator) in the manufacturing sector (Anand et al, 2005). Also the significant increase in outsourcing over the past two decades has fueled researchers’ interest in the benefits of buyer-supplier relationships. As cooperation and collaboration between buyers and suppliers has increased, the performance of these relationships and the fact that these are socially embedded dimensions should be of interest to researchers (Krause, 2007).

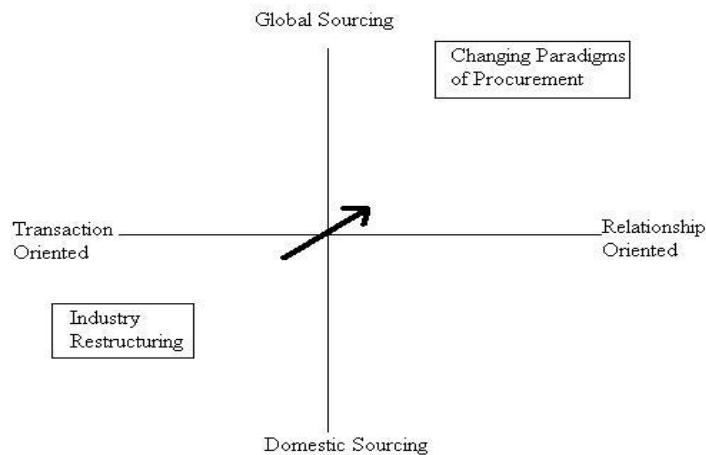
Objective of the Study

To advance a more comprehensive definition of elements or key constructs required for the long term antecedent of Buyer Supplier Relationship (BSR).

To maintain the already created relationship by the buyer with the supplier, the long term orientation widens the scope of relationship development in future. Thus this study was conducted with the focus on long term aspect from buyers’ perspective and to measure the level of concern for these elements prioritized.

Literature Review

The shift has been from research addressing transaction oriented marketing to research addressing relationship marketing. This is because of an increased recognition of the importance of satisfaction, retention strategies and relationships to the performance of a firm (Byrne et al., 1993). This shift now emphasizes on the changing paradigms of procurement for the purpose of sourcing and relationship management as shown in figure 1.

Figure 1: Shift in Organizational Buying Behavior

Source: Sheth And Sharma (1997)

Effective supply chain management is made up of a series of partnership among firms working together and mutually sharing information, channel risks and rewards that yield a competitive advantage (Ellram and Cooper, 1990). The first truly “long term” inter organizational relationships evolved in Japan during the post-world war II years, when the organizations in Japan established a new type of integration scheme known as the **keiretsu**, characterized by informal but strict cooperation among members. (Prescutti 1992). As the organizations cannot rely only on their competence and potential only but the capabilities of suppliers are also need to be utilized by establishing linkages and relationships with them.

Successful relationships aim to integrate channel policy to avoid redundancy and overlap while seeking a level of cooperation that allows participants to be more effective at lower cost levels (Lassar and Zinn 1995). Relationship with suppliers is a critical component of managing the supply chain. Supply chain relationships are typically long term and require considerable strategic coordination. Cooperation between supplier and focal organization arises directly from both trust and commitment. Lamming et. al. (1996) were among the first to apply relationship principles to Buyer Supplier assessment.

Historically, supply chain relationships have been used either on power or on trust. There seems to be differences in approach across cultures. In power based relationships, the stronger party usually exploits the weaker one. In the short run, the stronger party is able to benefit at the expense of weaker one but since this is not sustainable, in the long run either the relationship breaks down or the overall chain performance starts deteriorating. Relationship commitment is a common measure used in examining dyadic supply chain relationship. Performance improvements sought by buying firms are often only possible when they commit to a long term relationship with their key suppliers (Krause, 1999). According to Shah, the initiative for a new supply chain is usually started by the focal firm which provides leadership to the entire value chain. The types of initiatives and the cost aspect are depicted in the following table:

Table 1: Cost Impact of Supply Chain Initiative-

Type of Initiative	Supplier Costs	Customer Costs	Supply Chain Costs	Action/Initiative enabler
I.	↓	↓	↓	Supply Chain Partnership
II.	↑	↓	↓	Power equations
III.	↑	↓	↑	Power equations
IV.	↑	↑	↑	Power equations and gaming by two parties

Source: Shah (2009)

According to Shah, successful relationship building involves the following three elements:

1. Design relationship with cooperation and trust
2. Manage and nurture relationships
3. Redesign relationship with change in environment

Various empirical studies have shown the assessment and importance of Buyer Supplier Relationship (Ring & Van, 1994; Gadde & Snehota, 2000; Perez & Sanchez, 2000; Handfield & Bechtel, 2002; Ginnakis, 2007). The relationship cannot be formed with all the suppliers.

The willingness to enter in relationship develops the urge in buyer and supplier to work in collaboration. Willingness of supplier to be in relationship determines the strength of relationship (Kannan and Tan 2003). When both the parties see the tangible form of commitment through investment and support in each others' venture then it becomes easy to establish an alliance. Trust in each other reduces the need of formal contracts because the sense of initiative and responsibility is willingly taken which is not seen in case of formal contracts as the parties may not agree to do 'extra'. The trend is seen that informal contracts supersede formal legal contracts, so it can be conceived that legal contracts can be an impediment to trust as for 'safety' they have to undergo the path to development of trust among them by not going beyond the contract. (Handfield and Bechtel 2002). To enter in long term relationship, not only current performance measures need to be analyzed but also the historical data of supplier's performance. The buyer cannot have full control on the supplier as the supplier has his own logic in reaping benefits from the business.

Method

It was found that long term orientation is an important antecedent for buyer supplier relationship. Twenty elements or key constructs of long term orientation were identified in the focused interviews with the buyer organizations. The information was provided by the purchasing officer or the owner of the buying unit. Usually interviews were conducted through site visits or telephone calls, the time it took for one interview generally ranged from 30 minutes to 1.5 hours. The convenience sampling was used to select the fifteen textile units/buyers in Ludhiana region, which is considered as the hub of textile units in Northern region.

Data Collection

The buyer was asked to identify one key input supplier who is considered the most important and strategic for the buyer's business. The elements identified were prioritized by the sample group of fifteen textile units selected in Ludhiana region. The reasons for the importance given to these elements were fetched during the interview.

Data Analysis

The buyers selected were the textile units of Ludhiana region which had the annual turnover of more than fifty crores in 2009-10. The average length of the relationship reported between the buyer and the key input supplier was approximately eight years. The structural data of the sample is depicted in the following tables.

Table 2: Structural Data I

Permanent Employees	No.	% (n=15)
Less than 100	6	40
Between 100 and 200	4	27
More than 200	5	33

Table 3: Structural Data II

Buyer's first year in business	No.	%
Before 1990	6	40
Between 1990 and 2000	7	47
2000 onwards	2	13

The mean ranking of the elements/key-constructs on the basis of importance to maintain long term BSR (Table 4) and the reasons to rate the element on the basis of importance are discussed as follows:

1. **Future Decision Implications:** The buyers ranked it as the most important element as the long term oriented relationship is developed only with that supplier who has good past record, an implication to perform well in future also. The buyers' expectation for the supplier to get positive outcome in future transactions increases.
2. **Length of Contract:** The buyers ranked it as the second most important element of long term oriented BSR. The reason perceived by the buyer is that the longer length of contract definitely helps in building BSR for extended time duration.
3. **Laamanen (2005)** has measured relationship quality in terms of openness (expression of problems and conflicts in this), mutual understanding, social interaction and trust.
4. **Expression of Problems or Conflicts:** The buyers have rated it as the third most important element. The reason provided is that the problems expressed solves them sooner and decreases their occurrence in future which strengthens the BSR.
5. **Mutual Understanding and Socialization:** The buyers think this element should be at number four. Formal and Informal meetings enhance BSR and also the interactions among them helps in better understanding of each others needs and norms to be followed.
6. **Trust:** The Buyers have ranked it at number five as the suppliers sincerity in providing the ordered quantity in time and quality material delivered enhances the trust of buyer on supplier which furthers strengthens the bond between them.
7. **Willingness to Support:** Although not many of the buyers could recall the incident where the extra support or help was demanded by the buyer. But it was the trust of Buyers in Suppliers that the Suppliers will always support them in time of requirement has made this element ranked at number six. One of the rules of thumb (Handfield & Nichols 2002) to develop a trusting relationship with Supply Chain partners is to show genuine responsiveness to partner's needs and showing willingness to go the 'extra mile' if necessary.
8. **Personal Favor:** The buyers ranked it at number seven as they feel that personal favors by the Supplier enhance the tendency of relationship to sustain in future also but only in certain cases. When the Supplier is in some personal or referred relationship with the Buyer then to favor them for future transactions favors are also expected by the buyer side. Emmett and Crocker (2006) have also identified it as an important factor in establishing and maintaining collaborative relationships.
9. **Sharing of Risks:** The orders are placed six months prior. Although much of the planning is done but still in case of certain change in trend (because of latest fad or fashion), the risk is borne by the buyer only but at the same time they think if the risk is shared by the supplier

also then it can enhance the relationship orientation. The risks regarding any mishappenings are not considered as the material delivered is ensured by any of the two parties so no sharing is required as it can be borne by the insurer. So it has been ranked at number eight.

10. **Fair Profit Share:** One of the rules of collaboration between buyer and supplier, as given by Emmett and Crocker, is that the real and recognized benefits must be found for all players involved in the supply chain. Both the parties work for profitability. The profit fairly shared is not a very important element to be considered for maintaining the relationship as it is already decided in the contracts. Also there were no special tasks done jointly by them so no scope of sharing the profits among them.

11. **Sub-Optimization:** The relationship is maintained for profitability only and the buyers have this apprehension that the supplier may go in contract with other buyers also to reap more benefits. Also the stronger among the buyer and supplier will try to fulfill his objectives before considering others.

Table 4: The Top Ten Key-Constructs Prioritized By The Buyer For Long Term Orientation In BSR

S.no.	Element	Mean Ranking
1	Future decision implications	2
2	Length of contract	2.8
3	Expression of problems or conflicts	3.1
4	Mutual Understanding and socialization	3.5
5	Trust	3.9
6	Willingness to support	6.1
7	Personal favor	7.6
8	Sharing of risks	8.3
9	Fair profit share	8.7
10	Sub-optimization	8.9

Future Scope of The Study

The study investigated the buyer supplier relationship existing only in textile industry; the trend can be seen in other industries also. Both the buyer and supplier perspectives can be assessed in further studies to study their expectations from each other. The impact of long term oriented relationship on the performance of both parties can be studied in future.

Conclusion

Durable relationships with selected suppliers are seen as sources of a stronger competitive position. Long term relationship with supplier enables firms to be more efficient in procurement as well as more effective in delivering quality and reducing transaction costs (Sheth and Sharma, 1997). This study investigated the elements of long term orientation in relationship between the selected textile units and their key input supplier. There are many empirical studies in this context but in India, the idea of having a relationship orientation with the supplier is still at the initial stage. Although commitment between the two firms is an important complementary condition to establish performance goals and provide value to buying firms (Krause et.al. 2007) but the buyers have not yet thought about developing the suppliers. While selecting the suppliers, price and geographical proximity is given the importance and quality acts as the qualifier. The transaction orientation still exists even with the most important supplier. The mutual respect, understanding, socialization and personal favors are ranked above the sharing of risks and sub-optimization as the partnership approach is not followed among the buyer and the supplier.

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